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OVERNIGHT DELIVERY

October 2, 2000

Manager
Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

Re: Proposed Agency Information Collection Activities
65 Fed. Reg. 48049 (August 4, 2000)

Dear Sir or Madame:

Dollar Bank, F.S.B. (the "Bank"), appreciates this opportunity to comment on the proposal (the "Proposal") by the Office of Thrift Supervision ("OTS") to change the reporting requirements for the Thrift Financial Report ("TFR.")

The Bank is a well-capitalized federal savings bank serving the Pittsburgh and Cleveland metropolitan areas and having in excess of three billion dollars in assets. The Bank provides a comprehensive line of banking services to local households and businesses in both markets. The Bank has a public CRA rating of Outstanding and has established several CRA lending programs targeted toward low-income borrowers and census tracts. Moreover, the Bank has never engaged in subprime lending as that term is commonly used, nor does it have plans to do so.

The Bank understands the rationale for what overall appears to be a workable Proposal, but has nevertheless three major concerns about the Proposal.

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First, to promulgate complex new reporting requirements in November or December for implementation starting January 1, 2001, is not practical timing.

Second, while addressing significant and valid regulatory concerns about subprime and predatory lending, OTS should be careful to avoid imposing reporting requirements that have the unintended consequence of undermining CRA lending programs or creating barriers to banks' ability and willingness to innovate in this area.

Third, it is particularly important that definitions of subprime or high-risk lending be both realistic and consistent with the definitions applied by the federal agencies that regulate commercial banks (the "Other Agencies.")

I.) TIMING.

Comment on the Proposal is due on October 3, 2000. The Proposal sets forth numerous options and alternatives that are under consideration with respect to certain of the data requirements being proposed. It would be impossible for any bank to begin work to implement the Proposal until OTS decides what specific requirements will be incorporated into the final regulation. Even if OTS is able to evaluate the comments and to draft and publish a final regulation within 30 to 60 days, that means the final regulation will not be forthcoming until a matter of weeks before the start of the first quarter of the year. Although submission of TFRs for the first quarter would not be required until April 30, 2001, collection of data on a basis consistent with the reporting requirements would need to start as soon as the quarter began. It is difficult if not impossible to report data on a basis different from how it is captured and recorded as part of a bank's normal operations.

Moreover, even if it is possible to report on a basis inconsistent with current methods of data collection, complex changes in reporting requirements themselves take time to develop, program, test, and implement correctly. Below, we list a few illustrative examples of items in the Proposal that, in our opinion, are likely to require substantial time before accounting systems can reasonably be expected to be modified to conform.

- A.) The proposed redefinition of mortgage loans to include all loans that involve a lien on real property that has affected either the terms of the credit or the extension of the credit involves changes to installment loan systems and commercial loan systems as well as manual review of loan files.
- B.) The proposed merger of data on originations, delinquency, and charge-offs of first and second liens involves consolidating data from mortgage systems with data from both installment loan and commercial loan systems.
- C.) The definition, not yet specified, of subprime loans along with special reporting for such loans may well involve revisions to all loan systems in the Bank.

Finally, we point out that de minimis exceptions from reporting requirements do not address this timing issue: in order to determine that no reporting is required, systems still must be modified to demonstrate compliance with the definitions of de minimis.

In short, for banks to be able to comply, OTS needs to ensure that it grants sufficient time between the date that a final regulation is issued and the date after which data must be collected and reported consistently with that regulation.

II.) COMMUNITY REINVESTMENT.

Many banks have worked very hard over the last ten to fifteen years to develop non-traditional lending programs to meet the credit needs of lower income communities. By necessity, these programs have tended to have higher than ordinary loan-to-value ratios and to have borrowers whose credit histories are not perfect. Because of OTS's historical commitment to encouraging banks' CRA efforts, it is surprising that the Proposal is silent on distinguishing between CRA programs and subprime lending programs. Continued silence in the final regulation may do severe damage to CRA lending programs nationwide.

The Bank's commitment to CRA is reflected in its CRA rating, and the Bank has invested a prudent percentage of its assets (about 1%) in special program CRA loans. These programs are marketed in part through community development groups. Credit losses associated with these programs have not been excessive, and the programs are now old enough for the portfolios to be seasoned. Many borrowers who enter the Bank's CRA programs must take either credit counseling or homeowner counseling or both before qualifying for credit under the program.

Programs such as these are expensive to administer today. If they become subject to further burdensome reporting or other requirements, the economics of such programs become increasingly unattractive. With regard to this particular issue, de minimis exemptions may be helpful, but do not fully address the problem.

Furthermore, categorization of CRA lending as subprime lending in public disclosures may create significant disincentives for any sensible bank to do CRA lending, particularly if the public perception becomes that CRA lending is highly risky or is in any sense predatory. In other words, the Proposal may be creating reputation risk that may discourage continued CRA lending.

The Bank recognizes that OTS and the Other Agencies have safety and soundness needs, legitimized by experience, to identify banks with high credit risk or with predatory lending programs. Moreover, the Bank does recognize the difficulty of distinguishing between higher risk lending, predatory lending, and CRA lending on purely numerical and statistical grounds.

The Bank believes that a meaningful distinction between CRA lending and subprime lending can be made and that such a distinction must be made. A failure to do so will have unintended and unfortunate consequences for the future of the many sound CRA programs that OTS and the Other Agencies have encouraged the industry to develop and implement.

III.) DEFINITION OF HIGH RISK AND SUBPRIME LOANS.

There are many issues involved in defining what are high-risk or subprime loans. The Bank doubts that a definition based on a single variable is likely to be correct or even useful. For example, does a loan secured by owner occupied housing with a loan to value ratio of 95% and private credit insurance from a well capitalized insurance company represent high risk to the bank holding the loan? Or can individuals with high income and high net worth be permitted higher debt to income ratios with little risk of default because living expenses of such individuals represent a smaller proportion of their income? Or do loan-pricing procedures that assign higher rates to low balance loans mean that small loans carry more risk or that they demand higher spreads to cover what are fixed operating costs for origination and servicing? In short, the implication that one or two variables are sufficient to determine whether a loan has high or low risk is likely to be unrealistic.

Just as importantly, one of the primary reasons that the Proposal has been issued is to diminish differences in how various types of institutions report. Given that differences in how loans are categorized between high and low risk may have effects on public perception, CRA, and even the ability to grant certain types of credit by particular institutions, it is extremely important to achieve consistency between OTS and the Other Agencies.

The Bank recommends, therefore, that OTS work with the Other Agencies to adopt uniform definitions that reflect the wide variety of factors that the underwriting processes of well-managed banks use to determine risk.

We hope that these brief comments are helpful. If you have questions about these comments, please feel free to write or call us.

Respectfully yours,



Jeffrey Morrow,
Executive Vice President